



Office of Health Policy and Program Support
P.O. Box 720724
Sacramento, CA 94229-0724
Telecommunications Device for the Deaf, 1 (800) 735-2926; (916) 795-3240
Toll Free: (888) 225-7377 or 1 (888) CalPERS
FAX (916) 795-4105

February 20, 2008

AGENDA ITEM 8a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Feasibility of Offering Health Care Coverage to School Employees: AB 256 Study
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

California Government Code Section 22849 (Assembly Bill 256, passed in October 2005) required CalPERS, working in consultation with CalSTRS, to evaluate the feasibility of creating a single statewide health care pool for all school employees, and report its findings to the Legislature. In January 2007, CalPERS and CalSTRS agreed to shared-funding of the study and selected Mercer to conduct the analysis.

In early 2007, Mercer met with representatives of CalPERS, CalSTRS, CSEA and CTA to establish key objectives, scope and process for the study. Over the course of 2007, Mercer conducted exhaustive research related to current health care coverage for California school employees, to obtain baseline data for use in assessing potential gains from establishing a single statewide pool. This review included analysis of:

- School employee demographics and enrollment patterns
- Prevalence of benefit designs, health plans used and costs
- Funding and pooling vehicles currently used to purchase benefits
- Current collective bargaining language related to health care benefits.

Key observations reported from this analysis are as follows:

- 80% of all districts in the State currently purchase health care coverage through pooled mechanisms (JPAs, Trusts and/or CalPERS)
- When compared to other large California employers, school districts pay more for medical coverage, likely due to two key factors:

- Covering a higher proportion of dependents (spouses and children), and
- Providing a higher level of benefits (due to a historical bargaining practice of trading wages for benefits)
- Size of a particular district does not appear to be a consistent factor in its relative health care costs
- School employee enrollment is currently predominantly in either Kaiser, Blue Cross or Blue Shield, though plan designs vary widely
- Full-time Certificated and Classified employees enjoy good access to affordable coverage
- While part-time employees (who work at least 20 hours per week) generally enjoy good access to coverage, it is often much less affordable
- Schools provide good access to medical coverage for eligible early retirees (those not yet Medicare-age), but coverage is less prevalent for Medicare-age retirees

The report recommended that if a statewide pool were to be considered, it should be mandatory for all districts, in order to attain the maximum benefits in terms of cost savings and improved program performance. Because of the current prevalence of various pooled arrangements, Mercer believed that a voluntary pool would not be sufficiently differentiated from options that already exist in the current marketplace.

The study identified potential near-term savings from a single mandatory statewide pool ranging from approximately \$215 million to \$400 million. The primary sources for these savings include: lowered fixed costs, streamlined administration, reduced prescription drug costs, and improved provider network discounts. In addition, the study identified significant additional, longer-term savings opportunities that could emerge over several years from improved program efficiencies and reduced medical trend. Primary sources for these savings include: implementing best practices for health and disease management and plan administration, and adopting modified rate tier structures and plan designs.

The report identified the fact that CalPERS could be a very effective administrator for a mandatory school pool. A mandatory statewide pool for school employees would contain roughly 1.6 million members, which would more than double the current CalPERS membership and dramatically increase marketplace scale and leverage. PEMHCA rules requiring retiree medical coverage, however, conflict with the current reality in the schools market where only about 15% of districts offer retiree medical coverage to both early and Medicare-age retirees. Unless PEMHCA rules are altered, or new funding sources identified, this requirement would create a major financial issue for school districts, relative to their current market situation. In fact, the added cost for districts not currently offering retiree medical would significantly exceed the pool savings identified in the report.

V. STRATEGIC PLAN:

This agenda item supports CalPERS Strategic Plan Goal 12: “Engage and influence the healthcare marketplace to provide medical care that optimizes quality, access, and cost.”

VI. RESULTS/COSTS:

There are no current costs associated with this agenda item. If CalPERS became the administrator for a statewide school health care pool, staff would have to conduct a workload and cost analysis.

Sandra Felderstein, Chief
Office of Health Policy and Program Support

Gregory A. Franklin
Assistant Executive Officer
Health Benefits Branch